

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6859

BILL NUMBER: SB 293

NOTE PREPARED: Feb 23, 2012

BILL AMENDED: Feb 23, 2012

SUBJECT: Inheritance Tax.

FIRST AUTHOR: Sen. Smith J

FIRST SPONSOR: Rep. Turner

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill reclassifies a spouse, widow, or widower of a child of the transferor as a Class A transferee instead of a Class B transferee. It reclassifies a spouse, widow, or widower of a stepchild of the transferor as a Class A transferee instead of a Class C transferee. It provides for a 10 year phase-out of the Inheritance Tax beginning in 2012. The bill also increases the Inheritance Tax exemption amounts with respect to taxable transfers resulting from the deaths of individuals dying after June 30, 2012, as follows: (1) from \$100,000 to \$250,000 for Class A transferees; (2) from \$500 to \$25,000 for Class B transferees; and (3) from \$100 to \$25,000 for Class C transferees.

Effective Date: July 1, 2012.

Summary of Net State Impact: (Revised) The annual net fiscal impact to the state General Fund from Inheritance Tax changes proposed in the bill is summarized in the table below. Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2014.

Fiscal Year Impact	Inheritance Tax Revenue Loss	Savings in County Replacement Expenditures	Net Increase (Decrease)
FY 2013	\$0	(\$10,000)	\$10,000
FY 2014	(\$56.8 M - \$65.8 M)	(\$20,000)	(\$56.8 M - \$65.8 M)
FY 2015	(\$67.5 M - \$75.6 M)	(\$31,000)	(\$67.5 M - \$75.6 M)
FY 2016	(\$78.2 M - \$85.5 M)	(\$41,000)	(\$78.2 M - \$85.4 M)
FY 2017	(\$88.9 M - \$95.3 M)	(\$51,000)	(\$88.9 M - \$95.2 M)
FY 2018	(\$99.6 M - \$105.1 M)	(\$62,000)	(\$99.6 M - \$105.0 M)
FY 2019	(\$111.5 M - \$116.0 M)	(\$72,000)	(\$111.4 M - \$115.9 M)
FY 2020	(\$122.2 M - \$125.8 M)	(\$82,000)	(\$122.1 M - \$125.7 M)
FY 2021	(\$132.9 M - \$135.6 M)	(\$93,000)	(\$132.8 M - \$135.5 M)
FY 2022	(\$143.6 M - \$145.4 M)	(\$103,000)	(\$143.5 M - \$145.3 M)
FY 2023	(\$154.3 M - \$155.2 M)	(\$113,000)	(\$154.2 M - \$155.1 M)
FY 2024 and after	(\$165.0 M)	(\$113,000)	(\$164.9 M)

Explanation of State Expenditures: (Revised) *Department of State Revenue:* If the Inheritance Tax is repealed, there could be a savings to the state from a reduction in staff of the Inheritance Tax Section of the Department of State Revenue. The November 1, 2011, state staffing table indicates that the Inheritance Tax Division has 8 full-time employees with an annual salary of about \$300,000. Since staff will be needed to process returns during the phaseout of the Inheritance Tax, a specific savings due to staff reductions could not be estimated.

(Revised) *County Inheritance Tax Replacement Payments:* The bill phases out replacement payments paid from the state General Fund to counties based upon replacement payments that they receive for any shortage of Inheritance Tax revenue in FY 2012 (the fiscal year before the Inheritance Tax begins to be phased out by this bill). Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages. Thirteen counties received less revenue than is guaranteed by statute for FY 2011, totaling about \$108,000. Replacement payments have averaged about \$113,000 since FY 2006, and the estimated savings from phasing out the county replacement payments in the table above are based on this average. Because most counties retain more in Inheritance Tax revenues than is guaranteed in the replacement statute, most counties will not receive replacement payments. Replacement payments will end in FY 2023.

(See *Explanation of Local Revenues* for an explanation of county revenue loss and replacement procedures.)

Explanation of State Revenues: (Revised) *Summary* - This bill is expected to decrease Inheritance Tax revenue annually beginning in FY 2014. Estimates are provided in the table below.

Fiscal Year Impact	Inheritance Tax Revenue Loss
FY 2013	\$0
FY 2014	(\$56.8 M - \$65.8 M)
FY 2015	(\$67.5 M - \$75.6 M)
FY 2016	(\$78.2 M - \$85.5 M)
FY 2017	(\$88.9 M - \$95.3 M)
FY 2018	(\$99.6 M - \$105.1 M)
FY 2019	(\$111.5 M - \$116.0 M)
FY 2020	(\$122.2 M - \$125.8 M)
FY 2021	(\$132.9 M - \$135.6 M)
FY 2022	(\$143.6 M - \$145.4 M)
FY 2023	(\$154.3 M - \$155.2 M)
FY 2024 and after	(\$165.0 M)

Background Information - The bill phases out the Inheritance Tax by providing an increasing credit against a beneficiary's Inheritance Tax liability. The credit would apply to transfers made by persons who die within the dates specified in the following table. The bill also increases the exemption amounts as follows beginning in FY 2013: Class A from \$100,000 to \$250,000; Class B from \$500 to \$25,000; and Class C from \$100 to \$25,000. The bill reclassifies a spouse, widow, or widower of a child of the transferor as a Class A transferee instead of a Class B transferee, and it provides that a spouse, widow, or widower of a child or stepchild of a transferor is a Class A transferee rather than a Class C transferee. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount), the bulk of the impact of these changes would not be experienced until FY 2014.

Inheritance Tax Credit	Transfers made from persons dying . . .
9%	After June 30, 2012, and before July 1, 2013
18%	After June 30, 2013, and before July 1, 2014
27%	After June 30, 2014, and before July 1, 2015
36%	After June 30, 2015, and before July 1, 2016
45%	After June 30, 2016, and before July 1, 2017
55%	After June 30, 2017, and before July 1, 2018
64%	After June 30, 2018, and before July 1, 2019
73%	After June 30, 2019, and before July 1, 2020
82%	After June 30, 2020, and before July 1, 2021
91%	After June 30, 2021, and before July 1, 2022
100%	After June 30, 2022

The estimated impact of the phaseout of the Inheritance Tax is based on the Revenue Technical Committee's FY 2012 forecast (published December 14, 2011). This forecast estimates FY 2012 Inheritance Tax at \$165 M. The estimated revenue loss from the exemption assumes that Inheritance Tax revenues would remain relatively constant in the future, absent the phaseout.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Summary* - The phaseout of the Inheritance Tax and county replacement payments could result in an annual revenue loss to counties beginning in FY 2013.

Fiscal Year Impact	Local Share of Inheritance Tax Revenue Loss	Net Replacement Payments (Aggregate)	Net Increase (Decrease)
FY 2013	\$0	(\$10,000)	(\$10,000)
FY 2014	(\$4.9 M - \$5.7 M)	(\$20,000)	(\$4.9 M - \$5.7 M)
FY 2015	(\$5.8 M - \$6.5 M)	(\$31,000)	(\$5.9 M - \$6.6 M)
FY 2016	(\$6.7 M - \$7.4 M)	(\$41,000)	(\$6.8 M - \$7.4 M)
FY 2017	(\$7.7 M - \$8.2 M)	(\$51,000)	(\$7.7 M - \$8.3 M)
FY 2018	(\$8.6 M - \$9.1 M)	(\$62,000)	(\$8.7 M - \$9.1 M)
FY 2019	(\$9.6 M - \$10.0 M)	(\$72,000)	(\$9.7 M - \$10.1 M)
FY 2020	(\$10.5 M - \$10.8 M)	(\$82,000)	(\$10.6 M - \$10.9 M)
FY 2021	(\$11.5 M - \$11.7 M)	(\$93,000)	(\$11.6 M - \$11.8 M)
FY 2022	(\$12.4 M - \$12.5 M)	(\$103,000)	(\$12.5 M - \$12.6 M)
FY 2023	(\$13.3 M - \$13.4 M)	(\$113,000)	(\$13.4 M - \$13.5 M)
FY 2024 and after	(\$14.2 M)	(\$113,000)	(\$14.3 M)

The bill also phases out replacement payments paid from the state General Fund to counties based upon replacement payments that they receive for any shortage of Inheritance Tax revenue in FY 2012 (the fiscal year before the Inheritance Tax begins to be phased out by this bill). Replacement payments have averaged about \$113,000 since FY 2006, and the estimated net county replacement payments in the table above are based on this average. The table below provides the schedule for the phaseout of county replacement payments.

Fiscal Year Impact	County Replacement Payment Phaseout
FY 2013	91% of replacement payments made for FY 2012
FY 2014	82% of replacement payments made for FY 2012
FY 2015	73% of replacement payments made for FY 2012
FY 2016	64% of replacement payments made for FY 2012
FY 2017	55% of replacement payments made for FY 2012
FY 2018	45% of replacement payments made for FY 2012
FY 2019	36% of replacement payments made for FY 2012
FY 2020	27% of replacement payments made for FY 2012
FY 2021	18% of replacement payments made for FY 2012
FY 2022	9% of replacement payments made for FY 2012
FY 2023	End of replacement payments

Background Information - Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents and are guaranteed a statutorily determined amount from the Inheritance Tax under P.L.254-1997. This legislation increased the Class A exemption to \$100,000, effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year. The total annual guarantee to counties is approximately \$7.4 M. Thirteen counties received less revenue than is guaranteed by statute for FY 2011, totaling about \$108,000. Replacement payments have averaged about \$113,000 since FY 2006. Because most counties retain more in Inheritance Tax revenues than is guaranteed in the replacement statute, most counties will not receive replacement payments. Replacement payments will end in FY 2018.

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, *State Revenue Forecast, Fiscal Years 2012 and 2013*, December 14, 2011; Quarterly Inheritance Tax Reports, FY 1997-FY 2011.

Fiscal Analyst: Jessica Harmon, 317-232-9854.